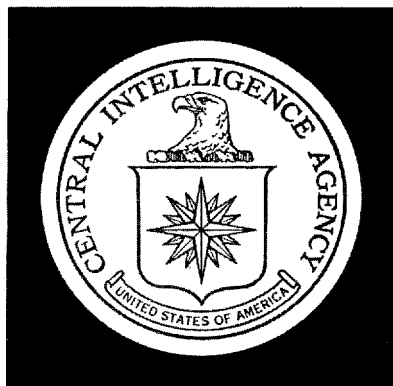


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Chile: President Frei's increasing political isolation is frustrating his efforts to deal with the country's economic and political problems.

Last week, unable to rally support outside his own party, Frei withdrew his crucial wage readjustment bill, which would have provided for needed development projects. Opposition parties, including the strong Communist Party, refuse to deal with the country's serious economic problems because such action might strengthen Frei's party in the 1970 presidential election. In addition, Frei is faced with open rebellion by the far left wing of his own party and may have to make extensive changes to strengthen the cabinet within a few months.

As the government searches for a new way to stop Chile's chronic inflation, pressure will build up to tap the profits of the US-based copper companies. Such action would violate present investment agreements and discourage new foreign investment.

Latin America - USSR: Four more countries may establish diplomatic and formal commercial relations with the USSR during 1968.

[redacted]  
Venezuela, Ecuador, Peru, and Bolivia are influenced by the reasoning of the other members of the regional economic "Andean group." Chile and Colombia re-stored relations with the USSR in November 1964 and January 1968 respectively. All these countries are seeking, perhaps with undue optimism, expanded markets for hard-to-sell commodities in order to ease growing economic difficulties.

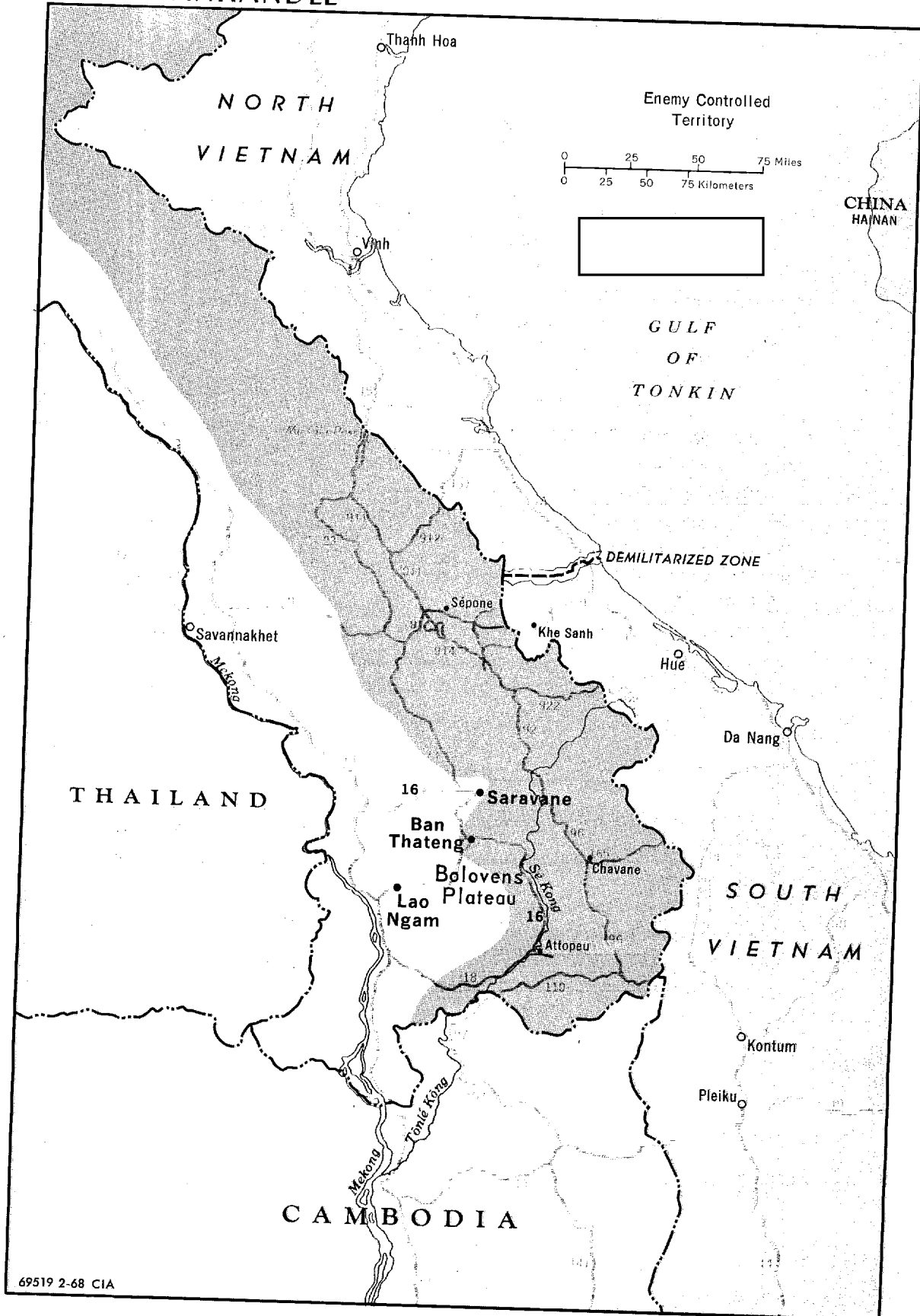
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Several believe that expanding relations with the USSR will further strain the Soviet-Cuban relationship. [redacted] the Andean countries may also have the naive hope that through recognition of the USSR as a group they could persuade the USSR to put pressure on Cuba to halt intervention in South America. [redacted]

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NOTE

Laos: The Communists appear to be preparing for a new offensive in the northern portion of the Bolovens Plateau. North Vietnamese troops have reduced the government's defensive perimeter around the provincial capital of Saravane and have seized a number of villages astride Route 16, the key overland route into the lightly defended town. A [ ] North Vietnamese deserter claims the Communists intend to occupy Saravane before moving on to hit more important government base camps at Lao Ngam and Ban Thateng. Although Saravane does not play an important military role in the area, its loss would have a serious psychological impact on an already nervous leadership in Vientiane.

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